

Message Text

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16

ACTION EA-14

INFO OCT-01 ISO-00 MC-02 EB-11 COME-00 IO-14 CIAE-00

DODE-00 PM-07 H-03 INR-11 L-03 NSAE-00 NSC-07 PA-04

RSC-01 PRS-01 SP-03 SS-20 USIA-15 AID-20 OMB-01

TRSE-00 DRC-01 ACDA-19 /158 W

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INFO CINCPAC HONOLULU HI

C O N F I D E N T I A L MANILA 9304

CINCPAC ALSO FOR POLAD

E.O. 11652: GDS

TAGS: EGEN, ETRD, MASS, RP, US

SUBJECT: M-16 RIFLE FACILITY

1. OUR DISCUSSIONS WITH UNDERSECRETARY OF NATIONAL DEFENSE SALIENTES REVEAL THAT GOP CONTINUES TO BE OPPOSED TO NEW FUNDING AGREEMENT AND IN PARTICULAR FINDS CANCELLATION CLAUSE (ON SIX CALENDAR DAYS' NOTICE) IN SECTION 1 (C) ONEROUS AND UNACCEPTABLE. GOP APPARENTLY FEELS THAT COLT IS MAKING A SIMPLE MATTER UNDULY COMPLICATED BY ASKING FOR ANOTHER AGREEMENT. FUNDAMENTALLY, WHAT COLT SEEKS, IN THE VIEW OF THE GOP, IS A LETTER OF CREDIT. THUS, THE GOP PLANS TO SOLVE THE IMPASSE BY TAKING ACTION RATHER THAN "NEGOTIATE AND HER AGREEMENT TO AGREE TO TAKE ACTION". SALIENTES ASKED US IN HIS OWN INIMITABLE WORDS TO PLEASE TELL COLT "NO MORE FRITTERING AWAY OF PRECIOUS TIME; LET'S GET STARTED".

2. GOP WILL THUS DRAFT PROVISIONS OF THE TWO LETTERS OF CREDIT, ONE FOR \$6.6 MILLION FOR ITS OWN EXPENSES AND
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ANOTHER FOR \$7.0 MILLION AS A CONTINGENCY FOR SECOND

USG FMS TRANCHE. DRAFTS WILL BE IN ACCORDANCE WITH TERMS OF ALL AGREEMENTS CONCLUDED SO FAR, AND WILL BE TELEXED TO COLT FOR CONCURRENCE. UPON AGREEMENT BY BOTH PARTIES, LETTERS OF CREDIT WILL BE OPENED SO THAT PROJECT CAN GET STARTED.

3. CANCELLATION CLAUSE WILL PROBABLY BE MISSING FROM GOP DRAFT LETTERS OF CREDIT, AS THERE ARE OBVIOUSLY MANY REASONS UNDER WHICH GOP MAY REASONABLE REFUSE TO OPEN, AMEND AND/OR SUPPLEMENT LETTERS OF CREDIT WITHIN SIX CALENDAR DAYS' NOTICE. SUCH REASONS MAY RELATE TO PRICING, TERMS OF DELIVERY, PERFORMANCE, ETC. IN ADDITION, SINCE GOP INTENDS TO OPEN BOTH LETTERS OF CREDIT NOW, MAJOR RATIONALE FOR CANCELLATION CLAUSE WILL NO LONGER EXIST. FINALLY, SIX CALENDAR DAYS' NOTICE IS MUCH TOO SHORT A FUSE FOR ANY CIVIL SERVICE, BE IT OURS OR THE PHILS.

4. WE BELIEVE COLT SHOULD BE ABLE TO OVERCOME ITS EXTREME CAUTION AS EXPRESSED GENERALLY IN ITS DESIRE FOR A FUNDING AGREEMENT AND IN PARTICULAR IN THE CANCELLATION CLAUSE. IN THIS RESPECT, IT MAY BE HELPFUL TO LEARN WHETHER COLT HAS SIMILAR FUNDING AGREEMENTS AND CANCELLATION CLAUSES WITH SINGAPORE AND KOREA. WE DOUBT VERY MUCH THAT EITHER WOULD HAVE AGREED TO SUCH A CONDITION.

5. WHILE THIS MAY BE ESSENTIALLY A COMMERCIAL DEAL, USG NOW HAS CONSIDERABLE POLITICAL, PSYCHOLOGICAL, ECONOMIC AND MILITARY INVESTMENT IN SUCCESS OF COLT PROJECT. SINCE BOTH SIDES APPEAR TO BE MOVING CLOSER TOGETHER, WE HOPE DEPARTMENT WOULD AGAIN TAKE OCCASION TO CONSULT WITH COLT SO AS TO PUSH FOR PROMPT WRAP-UP OF REMAINING ISSUES AND AN EARLY START OF THE PROJECT. BY THIS WE MAY REGAIN THE MOMENTUM NEEDED TO MAKE THIS PROJECT PAY OFF OUR VARIED INVESTMENT.
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